

**TESTIMONY OF CARL T. FROEHLICH
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INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM'S
SUBCOMMITTEE ON FEDERAL WORKFORCE AND AGENCY
ORGANIZATION**

JULY 18, 2006

Good morning Chairman Porter, ranking Member Davis and members of the Subcommittee. My name is Carl T. Froehlich. I am the Chief of Agency Wide Shared Services. Thank you for the opportunity to update the Subcommittee on the current state of operations within the headquarters of the Internal Revenue Service following the late June floods and the subsequent closure of the IRS Main Offices at 1111 Constitution Avenue.

Let me begin by assuring members of the subcommittee and all taxpayers that the work of the IRS is continuing while we take actions to repair the damage to the building and implement our business resumption plans for the headquarters operations. The public should not notice any significant change in their interactions with the agency based on temporary closure of our main office.

This morning I would like to do two things. First, I want to update you on the current state of the damage assessment. Secondly, I want to update you on the implementation of our business resumption plan. This is a dynamic process as we find and place more than 2400 people that worked in the main offices in other locations and restore the building to an operational status.

Damage Assessment

The heavy rains that pelted the Washington area on June 25 and 26 resulted in severe damage to significant components of our building infrastructure. Critical parts of the building's electrical, heating and air conditioning systems were destroyed or heavily damaged during the record rainfall. The equipment is located in the building's subbasement, which was submerged in more than 20 feet of water, and basement, which was submerged in 4-5 feet of water.

The subbasement holds all of the building's electrical and maintenance equipment such as electrical transformers, electrical switchgears, and chillers. The basement contained our fitness center, food service canteens, offices, systems furniture, carpet, ceiling tiles, computer equipment and vehicles garaged in the building, all of which were destroyed.

It took nearly five days for six to twelve pumps running constantly to completely remove all the water from the basement and subbasement. An initial clean-up and decontamination crew began cleanup efforts in the basement level on Wednesday, June 29, approximately 48 hours after the rain had stopped.. By Friday, July 1, two crews of 50 people each began working 24 hours a day, seven days a week. They will continue to work until the cleanup is complete.

The initial cleaning and decontamination of the building was completed on July 5th. Final cleaning and decontamination were completed on July 15. All of the damaged equipment, office furniture and supplies stored in the basement, as well as the drywall was completely removed, but it will take approximately 30 days for the infrastructure to completely dry before rebuilding can begin.

Work continues on assessing which systems can be repaired and which need to be replaced. Total damage estimates are not yet complete.

I would be remiss if I did not recognize the support and cooperation of the General Services Administration as we have attempted to cope with this ordeal. Their employees and contractors have been onsite working hard to restore operations as soon as possible.

Resumption of Business Operations

On June 27, 2006, the IRS DC Metro Area Incident Management Team established an Emergency Operations Center (EOC) at the New Carrollton Federal Building to coordinate all recovery efforts relative to the flooding of the IRS Main Building. Using specific guidelines developed and used during IRS recovery efforts after Hurricanes Rita and Katrina, the EOC Incident Commander and a command staff became responsible for collecting and evaluating information, directing all recovery and business resumption activities, coordinating administrative issues, and tracking of costs. The EOC was extremely proactive in working many issues and identifying processes to facilitate asset retrieval and placement. It also ensured managers and employees were kept informed on a daily basis through the creation of a website and electronic and voice messages.

Once it became obvious that the damage was significant and that operations in the building could not continue for an extended period of time, we implemented our business resumption processes. There were two key elements to this process. First, we needed to place all of our employees in one of the other IRS facilities in the Washington metropolitan areas and assign them temporary space or equip them with laptop computers that will enable them to telecommute.

Commissioner Everson announced last week that we had successfully implemented our Continuation of Operations (COOP) plan. By July 5, 2006 all critical employees were assigned workstations or authorized to telecommute. This reflects a total of 1,142 critical employees, of which 950 are working at assigned temporary space and 176 are telecommuting. The placement of non-critical personnel (1089 employees and 210

contractors) takes place during three phases, the first starting on July 13, 2006 with completion on July 28, 2006.

The second component of resuming business operations was to divert activities that would normally be performed at the main building to other facilities. This would include such things as mail or messenger delivery of taxpayer requests for rulings, requests for determination letters, Applications for Change in Accounting Method (Form 3115), and similar requests that are permitted to be hand-delivered to the main IRS Headquarters Building.

Until further notice, these requests and applications will be delivered to the IRS offices at 950 L'Enfant Plaza, 5th Floor, Washington, DC 20024. Complaints, subpoenas or any other service of process, as well as public comments on published guidance such as proposed regulations, normally delivered to the main IRS Headquarters Building, will also be temporarily delivered to this same address.

We also created a special procedure for processing requests for certain expedited letter rulings for reorganizations and section 355 distributions. Rather than faxing a copy of the requests to (202) 622-7707 as described in Revenue Procedures 2005-58 and 2006-1, taxpayers or their representatives are being asked to call the office of the Associate Chief Counsel (Corporate) at (202) 283-7930 and speak to an attorney regarding the temporary procedures for submitting these ruling requests.

The Internal Revenue Service has established a pilot program for processing requests for letter rulings for reorganizations and section 355 distributions on an expedited basis, provided certain requirements are met.

Outlook

Along with GSA, we announced last week the results of our initial assessment of the extensive damage resulting from the floods. According to the GSA assessment, complete building restoration may not be complete until next January. It is estimated to take at least six months to complete the acquisition and installation of the building's electrical and mechanical systems. The primary reason for the extended timeframe is that several of the high voltage electrical components required for the operation of the heating and air conditioning systems must be manufactured prior to delivery, installation and testing.

The IRS and GSA are also developing plans for a possible phased-in return of employees to the building over the course of the fall. We are exploring the use of temporary equipment to shorten the time constraints for full equipment replacement.

We are also conducting a review to determine what steps need to be taken to ensure this type of damage would not occur again in a comparable storm. Results of this review and a final re-occupancy schedule should be completed by early August.

Mr. Chairman, I wish I could provide further information, but as I said earlier, this is a dynamic process. We are continuing to place employees and assess the total damage.

However, I want to emphasize that despite the setbacks we have experienced in the last few weeks, the service provided taxpayers and enforcement against those that refuse to pay their fair share has continued unabated.

Thank you Mr. Chairman and I will be happy to respond to any questions.